

**REPORT OF THE AUDITOR GENERAL TO THE MUNICIPAL COUNCIL AND KWAZULU-NATAL PROVINCIAL LEGISLATURE ON THE FINANCIAL STATEMENTS AND PERFORMANCE INFORMATION OF HLABISA MUNICIPALITY FOR THE YEAR ENDED 30 JUNE 2007**

**REPORT ON THE FINANCIAL STATEMENTS**

**Introduction**

1. I have audited the accompanying financial statements of the Hlabisa Municipality which comprise the statement of financial position as at 30 June 2007, statement of financial performance, statement of changes in net assets, and cash flow statement for the year then ended, and a summary of significant accounting policies and other explanatory notes, as set out on pages 12 to 20.

**Responsibility of the accounting officer for the financial statements**

2. The accounting officer is responsible for the preparation and fair presentation of these financial statements in accordance with basis of accounting and in the manner required by the Local Government: Municipal Finance Management Act, 2003 (Act No. 56 of 2003) (MFMA). This responsibility includes:
  - designing, implementing and maintaining internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.
  - selecting and applying appropriate accounting policies.
  - making accounting estimates that are reasonable in the circumstances.

**Responsibility of the Auditor-General**

3. As required by section 188 of the Constitution of the Republic of South Africa, 1996 read with section 4 of the Public Audit Act, 2004 (Act No. 25 of 2004)(PAA) read with section 126(3) of the MFMA, my responsibility is to express an opinion on these financial statements based on my audit.
4. I conducted my audit in accordance with the International Standards on Auditing. Those standards require that I comply with ethical requirements and plan and perform the audit to obtain reasonable assurance whether the financial statements are free from material misstatement.
5. An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control.

## **Responsibility of the Auditor-General (continued)**

6. An audit also includes evaluating the:
  - appropriateness of accounting policies used
  - reasonableness of accounting estimates made by management
  - overall presentation of the financial statements.
7. I believe that the audit evidence I have obtained is sufficient and appropriate to provide a basis for my audit opinion.

## **Basis of accounting**

8. The municipality's policy is to prepare financial statements on the basis of accounting determined by the National Treasury as set out in accounting policy note 1 to the financial statements.

## **Basis for qualified opinion**

9. Unauthorised expenditure

It has been noted that the Municipal Infrastructure Grant funding amounting to R241, 261 which should only be utilised for municipal infrastructure expenses has been utilised for the rehabilitation of a provincial road although no funding was received from the provincial government.

Therefore, MIG funding was not utilised in line with the approved budget resulting in unauthorised expenditure been incurred.

10. Provision for Leave

I was unable to verify the provision for leave pay amounting to R738, 852 as no proper leave records were maintained. Furthermore, the provision for leave pay was calculated based on an estimation of leave days and not based on the actual leave credit available to staff as at the financial year end in accordance with the accounting policy.

Consequently, the valuation of the leave accrual could not be verified as a result of incorrect leave balances.

11. Value-added tax (VAT)

An amount of R2,3 million relating to VAT receivable could not be verified with adequate documentation by the municipality.

## **Qualified opinion**

12. In my opinion, except for the effects of the matters described in the Basis for qualified opinion paragraphs, the financial statements of Hlabisa municipality as at 30 June 2007 and its financial performance and cash flows for the year then ended have been prepared, in all material respects, in accordance with basis of accounting as set out in accounting policy note 1 and in the manner required by the MFMA.

## OTHER MATTERS

I draw attention to the following matters that are ancillary to my responsibilities in the audit of the financial statements:

### Non-compliance with applicable legislation

#### Municipal Finance Management Act (MFMA)

13. The municipality has not developed and implemented a Fraud prevention plan and risk management policy. The municipality has therefore not effectively managed its risk in accordance with section 62 (1) (c) (i) of the MFMA.

#### Municipal Systems Act (MSA)

14. Certain councillors did not declare all their financial interests in accordance with schedule 1 (code of conduct for councillors) of the MSA 1997 (section 7).

### Matters of governance

15. It has been noted that management has not established an audit committee as required by section 166 (1) of the MFMA.
16. The municipal manager has not developed and implemented a system of delegation of powers as required by section 79 of the MFMA.

### Internal control

17. Section 62(1) (c) (i) of the MFMA states that the accounting officer must ensure that the municipality has and maintains effective, efficient and transparent systems of financial and risk management and internal control. The table below depicts the root causes of the matters indicated, as they relate to the five components of internal control. In some instances deficiencies exist in more than one internal control component.

Reporting item	Control environment	Assessment of risks	Control activities	Information and communication	Monitoring
<b>Basis for qualification of opinion</b>					
Unauthorised expenditure			✓		
Provision for leave			✓		
VAT receivable			✓		
<b>Other matters</b>					
Non - compliance with applicable laws and regulations	✓		✓		
Matters of Governance			✓		

#### **16. Unaudited supplementary schedules**

The supplementary information set out on pages 21 to 26 does not form part of the financial statements and is presented as additional information. I have not audited these schedules and, accordingly I do not express an opinion on them.

### **OTHER REPORTING RESPONSIBILITIES**

#### **Reporting on performance information**

17. I was engaged to audit the performance information as set out on pages xx to xx.

#### **Responsibility of the accounting officer for the performance information**

18. In terms of section 121(3)(c) of the MFMA, the annual report of a municipality must include the annual performance report of the municipality prepared by the municipality in terms of section 46 of the Local Government: Municipal Systems Act, 2000 (Act No. 32 of 2000) (MSA).

#### **Responsibility of the Auditor-General**

19. I conducted my engagement in accordance with section 13 of the PAA read with *General Notice 646 of 2007*, issued in *Government Gazette No. 29919 of 25 May 2007* and section 45 of the MSA.
20. In terms of the foregoing my engagement included performing procedures of an audit nature to obtain sufficient appropriate evidence about the performance information and related systems, processes and procedures. The procedures selected depend on the auditor's judgement.
21. I believe that the evidence I have obtained is sufficient and appropriate to provide a basis for the audit findings reported below.

#### **Audit findings (performance information)**

#### **Non-compliance with regulatory requirements**

22. The annual report of the Hlabisa municipality did not include the annual performance report of the municipality prepared by the municipality in terms of section 46 of the MSA, as required by section 121 (3) (c) of the MFMA.

#### **No quarterly reporting on performance information**

23. No quarterly reports on the progress in achieving measurable objectives and targets were prepared by the different programme managers and as a whole for the Hlabisa municipality to facilitate effective performance monitoring, evaluation and corrective action.

## **APPRECIATION**

24. The assistance rendered by the staff of the Hlabisa Municipality during the audit is sincerely appreciated.

Pietermaritzburg

31 March 2008



**A U D I T O R - G E N E R A L**